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MAHER SHOES LIMITED

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ANNUAL REPORT

December 31st, 1974

PRESIDENT'S LETTER TO THE SHAREHOLDERS:

Like many businesses, the year ended December 31, 1974 was a difficult and trying period for Maher. A period that produced unprecedented increases both in product costs and operating expenses, particularly in bank interst which more than doubled. The footwear industry generally experienced sluggishness in 1974, lacking consistent fashion and pricing direction, along with an unusually warm fall selling season in most of the country.

In addition to the company's planned store closing program, all the company's lower priced leased departments were closed in 1974, as they have been a profit drain for some time. The added closing costs along with severely reduced gross margins in disposing of these inventories was a significant factor in the company's unsatisfactory last half profit performance.

To strengthen its ongoing name-brand strategies, the company has entered a joint venture with Savage Shoes (1970) Limited (a wholly-owned subsidiary of Interco Inc.) as of February 1st, 1975. Each company has pooled selected existing Ontario store locations, resulting in a 13 store chain known as Barcley-Lanes. We expect this exposure to one of North America's major branded shoe manufacturers will be of significant mutual benefit.

Today's economic uncertainties make any prediction of future results difficult. Despite this, the underlying strength of the businesses which now constitute our present mix is such that we await the future with confidence and optimism.

March 4th, 1975.

Thomas P. Wilson
President

MAHER SHOES LIMITED

(Incorporated under the laws of Ontario)
and its wholly-owned subsidiary

CONSOLIDATED BALANCE SHEET

December 31, 1974

(with comparative figures at December 31, 1973)

ASSETS

	1974	1973
Current:		
Cash	$ 79,000	$ 93,000
Accounts receivable	201,000	472,000
Inventories (note 1(b))	8,369,000	6,757,000
Income taxes recoverable	264,000	—
Mortgages receivable, current portion	271,000	—
Prepaid expenses and other current assets	186,000	177,000
Total current assets	9,370,000	7,499,000
Mortgages receivable, maturing in 1975, 1978 and 1980, less current portion	66,000	340,000
Fixed, at cost:		
Building	116,000	116,000
Fixtures, equipment and leasehold improvements	5,945,000	5,117,000
	6,061,000	5,233,000
Less accumulated depreciation and amortization	2,245,000	1,883,000
	3,816,000	3,350,000
Land	38,000	38,000
Total fixed assets	3,854,000	3,388,000
	$13,290,000	$11,227,000

On behalf of the Board:
G. R. CHATER, *Director*
T. P. WILSON, *Director*

LIABILITIES AND SHAREHOLDERS' EQUITY

	1974	1973
Current:		
Bank indebtedness	$ 4,364,000	$ 3,069,000
Accounts payable and accrued charges	1,415,000	1,189,000
Income and other taxes payable	240,000	291,000
Dividends payable	24,000	65,000
Debenture, current portion	46,000	—
Total current liabilities	6,089,000	4,614,000
Long-term:		
6¾ % sinking fund debenture, Series A maturing April 1, 1987 less current portion	1,279,000	1,325,000
Deferred income taxes	257,000	193,000
Shareholders' equity:		
Capital –		
Authorized:		
156,675 60¢ cumulative, non-redeemable preference shares without par value		
400,000 common shares without par value		
Issued:		
156,666 preference shares	1,413,000	1,413,000
209,900 common shares (note 3)	1,231,000	1,076,000
	2,644,000	2,489,000
Retained earnings as restated	3,021,000	2,606,000
Total shareholders' equity	5,665,000	5,095,000
	$13,290,000	$11,227,000

(See accompanying notes)

MAHER SHOES LIMITED

and its wholly-owned subsidiary

CONSOLIDATED STATEMENT OF EARNINGS

Year ended December 31, 1974

(with comparative figures for 1973)

	1974	1973
Sales	$27,440,000	$24,981,000
Costs and expenses:		
Cost of sales and operating expenses	25,039,000	22,528,000
Depreciation and amortization	531,000	425,000
Debenture interest and expense	95,000	95,000
Other interest (net)	574,000	230,000
	26,239,000	23,278,000
Earnings before income taxes	1,201,000	1,703,000
Income taxes	608,000	851,000
Earnings for the year	$ 593,000	$ 852,000
Earnings per common share	$ 2.38	$ 3.61

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended December 31, 1974

(with comparative figures for 1973)

	1974	1973
Retained earnings, beginning of year:		
As previously reported	$ 2,748,000	$ 2,118,000
Adjustment for retroactive change in method of inventory valuation (note 1(b))	142,000	102,000
As restated	2,606,000	2,016,000
Earnings for the year	593,000	852,000
	3,199,000	2,868,000
Less dividends:		
Preference shares – 60¢ per share	94,000	94,000
Common shares – 40¢ per share (80¢ in 1973)	84,000	168,000
	178,000	262,000
Retained earnings, end of year	$ 3,021,000	$ 2,606,000

(See accompanying notes)

MAHER SHOES LIMITED

and its wholly-owned subsidiary

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1974

(with comparative figures for 1973)

	1974	1973
Funds provided by:		
Operations –		
Earnings for the year	$ 593,000	$ 852,000
Items not involving an outlay (receipt) of funds in the current year:		
Depreciation and amortization	531,000	425,000
Deferred income taxes	64,000	80,000
Gain on disposal of fixed assets	(30,000)	(9,000)
Provided from operations	1,158,000	1,348,000
Mortgages receivable	274,000	(40,000)
Proceeds on sale of fixed assets	25,000	603,000
Common share subscriptions (note 3)	155,000	16,000
	1,612,000	1,927,000
Funds applied to:		
Fixtures, equipment and leasehold improvements	992,000	1,475,000
Dividends	178,000	262,000
Reduction of long-term debt	46,000	93,000
	1,216,000	1,830,000
Increase in working capital	396,000	97,000
Working capital, beginning of year	2,885,000	2,788,000
Working capital, end of year	$ 3,281,000	$ 2,885,000

(See accompanying notes)

MAHER SHOES LIMITED

and its wholly-owned subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1974

1. ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed by the companies:

(a) Principles of consolidation
The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary, Copp The Shoe Man Limited.

(b) Inventories
In 1974 the companies changed their method of inventory valuation from the lower of cost or net realizable value to the lower of cost or net realizable value less normal profit margin.
This change has been given retroactive effect in the accounts, as a result of which 1973 earnings are $40,000 less than previously reported.

(c) Fixed assets
Rates of depreciation and amortization applied on a straight-line basis to write off the fixed assets over their estimated useful lives are:

	Annual rate
Building	2½ %
Fixtures and equipment	10%
Leasehold improvements	10%

(d) Income taxes
The companies follow the tax allocation method of providing for income taxes. Under this method, differences between accounting and taxable income (which occur when revenues and expenses recognized in the accounts in one year are taxed or claimed for tax purposes in another year) result in deferred taxes which have been recorded in the accounts.

(e) Pension plan
Current pension costs are charged to operations each year. Past service costs are being amortized over fifteen years.
At December 31, 1974, the actuarially computed present value of the company obligations for unfunded past service costs to the Maher Pension Plan approximated $536,000 after deducting $47,000 charged to operations in 1974.

2. SINKING FUND DEBENTURES

The debentures are secured by a first floating charge on the assets of the company. The more significant of the covenants of the Trust Deed restrict the company from reducing consolidated working capital below $1,000,000 and from paying dividends on common shares if such payments would reduce consolidated working capital below $1,250,000.
At December 31, 1974, the company had a sinking fund credit sufficient to meet $26,000 of the $72,000 payment due in 1975. The payments required in 1976 and subsequent years average approximately $98,000 per annum to 1987, the date of maturity.

3. SHARE CAPITAL

In 1974 the company received the balance ($155,000) of the subscription price outstanding on 9,100 previously issued common shares.

4. LEASE OBLIGATIONS

At December 31, 1974 the companies had lease commitments expiring between 1975 and 1998 which require minimum average rentals of approximately $1,480,000 annually over the next five years exclusive of taxes, percentage rentals and other related occupancy costs.

5. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Remuneration of directors and senior officers amounted to $172,000 in 1974 ($236,000 in 1973).

AUDITORS' REPORT

To the Shareholders of Maher Shoes Limited:

We have examined the consolidated balance sheet of Maher Shoes Limited and its wholly-owned subsidiary as at December 31, 1974 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change, with which we concur, in the method of inventory valuation referred to in note 1(b), on a basis consistent with that of the preceding year.

Toronto, Ontario,
February 12, 1975.

CLARKSON, GORDON & CO.
Chartered Accountants

MAHER SHOES LIMITED

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INTERIM REPORT TO SHAREHOLDERS

Six Months Ended June 30th, 1974

TO THE SHAREHOLDERS:

For the six months ended June 30th, 1974, sales rose to $12,154,000, an increase of 17.6% and net earnings amounted to $203,000 a decrease of 7.3% from the corresponding period last year.

Twelve new units were opened, while four were closed, resulting in a total of 218 various retail units in operation at June 30th, 1974. A further eight new openings and seven closings are planned for the remainder of the year.

Traditionally, retailing activity is stronger in the second half of the calendar year and accordingly, first half earnings are not necessarily indicative of an entire year's results.

Like other retailers, the Company has experienced the problem of escalating operating costs along with the added cost of borrowing money at unprecedented rates. Operating under the present economic conditions is creating many challenges for business.

Looking ahead we remain confident that given a reasonably stable economic climate to perform in for the last half, both earnings and sales will be in excess of last year.

Toronto, Canada
August 12, 1974.

Thomas P. Wilson
President

CONSOLIDATED STATEMENT OF EARNINGS

(UNAUDITED)

	Six Months Ended June 30		
	1974	1973	Change
Sales	$12,154,000	$10,333,000	+ 17.6%
Earnings from operations before the following charges	923,000	752,000	+ 22.7%
Depreciation and amortization	229,000	186,000	+ 23.1%
Interest on short term debt and debentures	289,000	118,000	+144.9%
	518,000	304,000	+ 70.4%
Earnings before income taxes	405,000	448,000	— 9.6%
Income taxes	202,000	229,000	— 11.8%
Net earnings	$ 203,000	$ 219,000	— 7.3%
Earnings per common share	$ 0.74	$ 0.82	— 9.8%

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(UNAUDITED)

	Six Months Ended June 30 1974	1973
Funds Provided:		
Net earnings for period	$ 203,000	$ 219,000
Add depreciation and other charges not requiring outlay of funds	241,000	189,000
Total funds from operations	444,000	408,000
Net proceeds on sale of fixed assets	21,000	330,000
Common share subscriptions	155,000	3,000
Other	2,000	4,000
Total funds provided	622,000	745,000
Funds Applied:		
Fixtures, equipment and leasehold improvements	512,000	551,000
Dividends	131,000	131,000
Redemption of debentures	—	100,000
Total funds applied	643,000	782,000
Decrease in working capital	(21,000)	(37,000)
Working capital, December 31	3,027,000	2,890,000
Working capital, June 30	$3,006,000	$2,853,000